

Water PNG Limited

Financial Statements

For the year ended 31 December 2022

Water PNG Limited

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For the year ended 31 December 2022

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Water PNG Limited

Company Information

Water PNG Limited is a registered company under the Papua New Guinea Companies Act 1997, and by virtue of the National Water Supply and Sanitation Act 2016, and National Water Supply and Sanitation (Amendment) Act 2020, incorporated and domiciled in Papua New Guinea.

Registered office	Water PNG Limited Level 2, Marand Haus Waigani Drive Waigani National Capital District Papua New Guinea
Directors	Amb. Aiwa Olmi (Chairman) Mr Ako Toua (Deputy Chairman) Ms Sisa Kini Ms Tamzin Wardley Mr John Cholai Mr Nelson Tengi Mr Meckles Poya
Chief executive officer	Mr Parkop Kurua
Secretary	Daniel Wettao
Auditors	Auditor General PO Box 423, Waigani Port Moresby
Banks	Bank of South Pacific Limited PO Box 78 Port Moresby Kina Bank Limited PO Box 1141 Port Moresby Westpac Bank PNG Limited PO Box 77 Port Moresby

Water PNG Limited

Directors' Report

31 December 2022

The Directors take pleasure in presenting their annual report on the affairs of Water PNG Limited (the "Company") including the financial statements for the year ended 31 December 2022 and the auditor's report thereon.

Principal activities and change in state of affairs

The principal activities of the Company during the financial year was the provision of water and sanitation services. During the financial year there was no change in the principal activities.

Operating results

The profit of the Company after providing for income tax amounted to K8,735,185 (2021: restated loss of K 45,055,542).

Refer to Note 26 for the restatement details.

Comparative amounts

In 2022, the Company's management discovered a prior period error relating to the fair value of Eda Ranu's assets and liabilities, transferred to the Company on amalgamation at 13 April 2021. In addition, the deferred income balance of prior periods was corrected, based on information obtained during the year. Refer to Note 26 for the restatement details resulting from correction of prior period errors.

Dividends

No dividends were declared and paid during the financial year (2021: K20 million).

Directors

The Directors of the Company at any time during or since the end of the previous financial year are listed on page 1. No director was a shareholder of the Company during or since the end of the previous financial year, and none had any material interest by reason of a contractual arrangement with the Company or any related entity with the directors of, or with a firm of which he or she is a member, or in a Company in which he or she has a substantial financial interest.

Interests register

There were no entries recorded in the interests register during the financial year.

Donations

Donations of K615,821 (2021: K608,222) were made by the Company during the financial year.

Auditor's remuneration

The amounts paid or payable to the Company's auditor for audit and non-audit services provided during the financial year are disclosed in Note 9 to the financial statements.

Going concern

The Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence in the foreseeable future. Accordingly, the financial statements have been prepared on a going concern basis.

Directors' Report

31 December 2022

Matters or circumstances arising after the end of the year

No matters or circumstances have arisen since the end of the financial year which significantly affected or could significantly affect the operations of the Company, the results of those operations or the state of affairs of the Company in future financial years.

Signed in accordance with a resolution of the Board of Directors:

Director: Director:

A. Olmi

Dated at Port Moresby this 8 day of April 2024.

Water PNG Limited

Directors' Declaration

In the Directors opinion:

- (a) the financial statements and notes set out on pages 10 to 47 are in accordance with the Papua New Guinea Companies Act 1997 including:
 - (i) complying with applicable financial reporting standards and other mandatory professional reporting requirement approved for use in Papua New Guinea by the Accounting Standard Board; and
 - (ii) giving a true and fair view of the Company's financial position as at 31 December 2022 and of the financial performance as represented by the results of its operations and its cash flows for the financial year ended on that date.
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable; and
- (c) the financial statements and notes set out are also in accordance with the International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and the requirements of the Papua New Guinea Companies Act 1997.

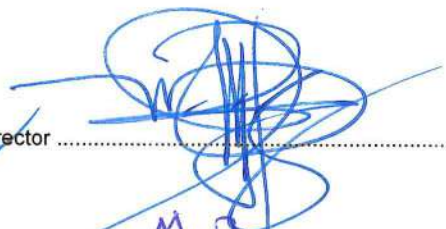
Dated at Pont Moresby this 8 day of April 2024

Signed in accordance with a resolution of the Board of the Directors.

Director


A. Olmi

Director


M. Poya

Water PNG Limited

Statement of Profit or Loss and Other Comprehensive Income
For the year ended 31 December 2022

		2022	2021
			Restated*
	Note	PGK	PGK
Revenue			
Water income	5	191,954,790	159,398,960
Sewerage income	6	35,596,985	29,499,526
Connection income		1,985,120	688,312
		229,536,895	189,586,798
 Other income	 7	 6,484,796	 10,472,949
		236,021,691	200,059,747
 Employee expenses	 8	 (81,882,488)	 (70,170,320)
Operating expenses	9	(80,466,457)	(55,442,957)
Depreciation	15	(49,544,199)	(42,233,110)
Impairment of receivables	14	(22,963,596)	(29,694,833)
 Finance costs		 (12,496,966)	 (1,370,539)
		(247,353,706)	(198,911,759)
 Loss / (profit) before income tax		 (11,332,015)	 1,147,988
Income tax (benefit) / expense	10(a)	20,067,200	(72,460,207)
Profit / (loss) for the year		8,735,185	(71,312,219)
Other comprehensive income			
Property, plant and equipment revaluation gain, net of tax		-	26,256,677
 Total comprehensive profit / (loss) for the year		 8,735,185	 (45,055,542)



The accompanying notes form part of these financial statements.
* Refer to Note 26 for the restatement details

Water PNG Limited

Statement of Financial Position As At 31 December 2022

		2022	2021	1 January
			Restated*	Restated*
	Note	PGK	PGK	PGK
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents	11	44,278,525	62,848,677	21,499,587
Term deposits	12	30,080,885	18,791,592	22,215,785
Inventories	13	10,585,837	7,521,670	2,867,357
Trade and other receivables	14	57,941,331	45,122,471	43,281,940
TOTAL CURRENT ASSETS		142,886,578	134,284,410	89,864,669
NON-CURRENT ASSETS				
Deferred tax assets	10(b)	62,484,775	59,864,142	14,932,944
Property, plant and equipment	15	1,315,678,720	1,248,511,634	478,570,569
TOTAL NON-CURRENT ASSETS		1,378,163,495	1,308,375,776	493,503,513
TOTAL ASSETS		1,521,050,073	1,442,660,186	583,368,182
LIABILITIES				
CURRENT LIABILITIES				
Trade and other payables	16	41,810,839	40,486,866	16,992,906
Current tax liabilities	10(c)	65,698,795	74,048,040	30,435,917
Loans and borrowings	19	106,676,873	-	-
Deferred income	17	2,774,272	2,135,522	2,074,958
Employee benefits obligation	18	5,425,400	4,070,957	2,029,562
Lease liabilities	20	4,516,481	4,746,066	4,062,046
TOTAL CURRENT LIABILITIES		226,902,660	125,487,451	55,595,389
NON-CURRENT LIABILITIES				
Loans and borrowings	19	12,425,860	107,540,586	107,540,586
Bonds and refundable deposits		5,681,079	5,234,804	4,933,306
Deferred income	17	1,924,688	112,521	112,521
Employee benefits obligation	18	17,789,501	15,466,511	6,799,155
Lease liabilities	20	5,035,748	3,654,596	6,304,955
Deferred tax liabilities	10(b)	167,093,693	190,855,807	31,329,369
TOTAL NON-CURRENT LIABILITIES		209,950,569	322,864,825	157,019,892
TOTAL LIABILITIES		436,853,229	448,352,276	212,615,281
NET ASSETS		1,084,196,844	994,307,910	370,752,901
EQUITY				
Asset revaluation reserve	22	224,209,373	240,655,819	232,139,349
Government equity	23	65,895,228	65,895,228	65,895,228
Retained earnings / (deficit)		24,327,943	(853,688)	72,718,324
Business combination reserve		688,032,017	688,032,017	-
Capital grants		578,492	578,534	-
Capital contribution		81,153,791	-	-
TOTAL SHAREHOLDERS' EQUITY		1,084,196,844	994,307,910	370,752,901

The accompanying notes form part of these financial statements.

* Refer to Note 26 for the restatement details



Water PNG Limited

Statement of Changes in Equity
For the year ended 31 December 2022

	Asset revaluation reserve Restated*	Government equity	Retained earnings / (deficit) Restated*	Business combination reserve Restated*	Capital grants	Capital contribution	Total
Note	PGK	PGK	PGK	PGK	PGK	PGK	PGK
Balance at 1 January 2021	232,139,349	65,895,228	34,629,675	-	-	-	332,664,252
Prior period restatement	26. -	-	38,088,649	-	-	-	38,088,649
Balance at 1 January 2021 restated	232,139,349	65,895,228	72,718,324	-	-	-	370,752,901
Profit for the year	-	-	(71,312,219)	-	-	-	(71,312,219)
Dividends paid	-	-	(20,000,000)	-	-	-	(20,000,000)
Realisation of revaluation	22. (17,740,207)	-	17,740,207	-	-	-	-
Revaluation gain	22. 26,256,677	-	-	-	-	-	26,256,677
Amalgamation of Eda Ranu recognised in equity	-	-	-	688,032,017	-	-	688,032,017
Capital grant on additions	-	-	-	-	578,534	-	578,534
Balance at 31 December 2021	240,655,819	65,895,228	(853,688)	688,032,017	578,534	-	994,307,910
Balance at 1 January 2022	240,655,819	65,895,228	(853,688)	688,032,017	578,534	-	994,307,910
Profit for the year	-	-	8,735,185	-	-	-	8,735,185
Realisation of revaluation	22. (16,446,446)	-	16,446,446	-	-	-	-
Capital contribution	-	-	-	-	-	81,153,791	81,153,791
Capital grant reduction	-	-	-	-	(42)	-	(42)
Balance at 31 December 2022	224,209,373	65,895,228	24,327,943	688,032,017	578,492	81,153,791	1,084,196,844

The accompanying notes form part of these financial statements.
* Refer to Note 26 for the restatement details



Water PNG Limited

Statement of Cash Flows

For the year ended 31 December 2022

		2021
	2022	*Restated
Note	PGK	PGK
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from customers	223,202,873	238,957,894
Payments to suppliers and employees	(206,628,862)	(187,643,723)
Increase in deferred income	2,450,917	-
Interest paid	(466,802)	(715,654)
Income tax paid	(14,594,175)	(13,513,125)
Net cash provided by operating activities	3,963,951	37,085,392
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest income	891,446	986,502
Payment for property, plant and equipment	(20,797,298)	(27,250,742)
Receipts from investment in term deposits *	(11,289,293)	5,329,645
Net cash used in investing activities	(31,195,145)	(20,934,595)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payment of dividends	-	(20,000,000)
Payment of lease liability	(2,901,105)	(4,505,646)
Increase in long-term borrowings	11,562,147	-
Proceeds from the amalgamation of Eda Ranu	-	49,703,939
Net cash provided by financing activities	8,661,042	25,198,293
Net increase in cash and cash equivalents held	(18,570,152)	41,349,090
Cash and cash equivalents at beginning of the financial year	62,848,677	21,499,587
Cash and cash equivalents at end of the financial year	11 44,278,525	62,848,677



The accompanying notes form part of these financial statements.

* Refer to Note 26 for the restatement details

Notes to the Financial Statements
For the year ended 31 December 2022

1. General information

Water PNG Limited (the "Company") is a company domiciled in Papua New Guinea. The address of the Company's registered office is Level 2, Marand Haus, Waigani Drive, Waigani, National Capital District, Papua New Guinea. The financial statements for the year ended 31 December 2022 comprise solely of the Company. The Company primarily is involved in the provision of water and sanitation services.

2. Basis of preparation

(a) Statement of compliance

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the Accounting Standards Board of Papua New Guinea (ASB) and the requirements of the Papua New Guinea Companies Act 1997.

(b) Basis of preparation

The financial statements have been prepared on a historical cost basis, except where otherwise stated.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and assets.

Fair value is the price that would be received for the selling of an asset or paid to transfer a liability in an ordinary transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique.

For financial reporting purposes, fair value measurements are categorised into level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- level 1 - inputs are quoted price (unaudited in active markets for identical assets or liabilities that the entity can access at the measurement date;
- level 2 - inputs are inputs other than quoted prices included within level 1, that are observable for the asset or liability, either directly or indirectly; and
- level 3 - inputs are unobservable inputs for the asset or liability.

(c) Functional and presentation currency

These financial statements are presented in Papua New Guinea Kina which is the Company's functional and presentation currency. All amounts have been rounded to the nearest Kina, unless otherwise indicated.

(d) Use of estimates and judgements

The preparation of a financial report in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in future periods if affected. The significant estimates and judgements applied in the preparation of these financial statements include:

- fair values of property, plant and equipment - refer to note 15(b);
- impairment of financial assets (provision for doubtful debts) - refer to note 3(k); and
- fair value categorisation of financial instruments in the fair value hierarchy - refer to note 24(a).



Notes to the Financial Statements
For the year ended 31 December 2022

2. Basis of preparation (Continued)

(e) Comparative amounts

The comparative amounts in the statement of financial position, statement of profit or loss and other comprehensive income, the statement of changes in equity have been restated. Refer to Note 26 for the restatement details resulting from correction of prior period errors.

(f) Going concern

The Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence in the foreseeable future. Accordingly, the financial statements have been prepared on a going concern basis.

3. Summary of significant accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

(a) Revenue

The Company generates revenue primarily from water supply and sewerage collection charge. Other sources of revenue include license fees, standby fees and interest income.

Revenue is recognised when a customer obtains control of the goods or services. Determining the timing of the transfer of control – a point in time or over point in time – requires judgement.

Revenue is measured based on the consideration specified in a contract with a customer. The Company recognises revenue when it transfers control over a good or service to a customer.

All revenue is stated net of the amount of goods and services tax (GST).

The following table provides information about the nature and timing of the satisfaction of performance obligations in contracts with customers, including significant payment terms, and the related recognition policies.



Notes to the Financial Statements

For the year ended 31 December 2022

3. Summary of significant accounting policies (Continued)

(a) Revenue (Continued)

Revenue Stream	Nature and timing of satisfaction of performance obligations, including significant payment terms	Revenue recognition
Water rates and sewerage rates	Customers obtain control when: • water and sanitation services access is provided. • Invoices are billed on a monthly basis over time. • Invoices are usually payable within 30 days.	Revenue is recognised over time when: • water and sanitation services access is provided to customers. • water and sanitation services access is provided to customers. • when water is supplied to customers.
Other revenue:	Customers obtain control when the Company provides professional and other services to residential and commercial customers.	Revenue is recognised at a point in time upon delivery of the service.
• Standby fees • Property connection fees • Licensing, fines and penalties • Other income		

(b) Goods and services tax (GST)

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except:

- where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or
- for receivables and payables which are recognised inclusive of GST.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables.

Cash flows are included in the statement of cash flows on a net basis. The GST component of cash flows arising from investing and financing activities which is recoverable from or payable to the taxation authority is classified as operating cash flows.

(c) Income tax

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

A deferred tax asset is recognised for deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be recognised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.



Notes to the Financial Statements

For the year ended 31 December 2022

3. Summary of significant accounting policies (Continued)

(d) Cash and cash equivalents

Cash comprises cash on hand, at bank and term deposits with an original term of 3 months or less. For the purposes of the statement of cash flows, cash includes cash on hand and in banks, net of outstanding bank overdrafts.

(e) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the first-in first-out principle, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition.

(f) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment is initially measured at cost and subsequently, at the asset's fair value, less subsequent accumulated depreciation and accumulated impairment losses.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Property, plant and equipment are revalued every three years by an external independent valuer. The effective date of revaluation was 31 December 2022. Increases in the carrying amount arising on revaluation of property, plant and equipment are credited to other comprehensive income and shown in revaluation reserve. Decreases that offset previous increases of the same asset are charged in other comprehensive income and debited against the revaluation reserve directly in equity; all other decreases are charged to the SOCI.

(ii) Subsequent costs

The cost of replacing a component of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the component will flow to the Company, and its cost can be measured reliably. The carrying amount of the replaced component is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

(iii) Depreciation

Depreciation is calculated over the depreciable amount, which is the cost of an asset, or other amount substituted for cost, less its residual value. Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Freehold land is not depreciated. Depreciation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

The straight line method of depreciation is used and the rates of depreciation are:

Buildings	3%
Civil works and pipelines	4.5%
Vehicles	30%
Plant, equipment and furniture	11.25% - 30%



Notes to the Financial Statements

For the year ended 31 December 2022

3. Summary of significant accounting policies (Continued)

(g) Employee benefit plans

(i) Defined contribution plan

The Company contributes to a defined contribution plan as part of its post-employment benefit plan for its employees, the Company pays fixed contributions into the plan. The Company has no legal or constructive obligation to pay further amounts to each employee. The obligation for contributions are recognised as an employee benefit expense in profit or loss in the periods during which services are rendered by employees.

(ii) Short-term employment benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognised for the amount at rates expected to be paid under short-term benefits if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

(h) Leases

Company acting as a lessee

At commencement or on modification of a contract that contains a lease component, the Company allocates consideration in the contract to each lease component on the basis of its relative stand-alone price.

The Company recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove any improvements made to branches or office premises.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, adjusted for certain re-measurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease, or if that cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability comprise of the following:

- fixed payments, including in-substance fixed payments; or
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date.

The lease liability is measured at an amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, if the Company changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.



Notes to the Financial Statements

For the year ended 31 December 2022

3. Summary of significant accounting policies (Continued)

(h) Leases (Continued)

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in the profit or loss if the carrying amount of the right-of-use of asset has been reduced to zero.

The Company presents right-of-use assets and lease liabilities separately in the statement of financial position.

Short-term leases and leases of low-value assets

The Company has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases. The Company recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

(i) Financial Instruments

(i) Recognition of financial assets and financial liabilities

Trade receivables are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the Company becomes a party to the contractual provisions of the instrument.

(ii) Classification and measurement of financial assets and financial liabilities

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

On initial recognition, a financial asset is classified as measured at amortised cost, fair value through other income (FVOCI) or fair value through profit or loss (FVTPL). The classification of financial assets is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics.

Financial assets are not reclassified subsequent to their initial recognition unless the Company changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortised cost if it meets both of the following conditions and it not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flow; and
- its contractual terms give rise on specific dates to cash flows that are solely payments of principal and interest on the principal amounts outstanding.

All financial assets not classified as measured at amortised cost as described above are measured at FVTPL. On initial recognition, the Company may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.



Notes to the Financial Statements

For the year ended 31 December 2022

3. Summary of significant accounting policies (Continued)

(i) Financial Instruments (Continued)

(ii) Classification and measurement of financial assets and financial liabilities (Continued)

Financial assets: Business model assessment

The Company makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. These include whether management's strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Company's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

Transfers of financial assets to third parties in transactions that do not qualify for derecognition are not considered sales for this purpose, consistent with the Group's continuing recognition of the assets.

Financial assets: Assessment whether contractual cash flows are solely payments of principal and interest

For the purpose of this assessment, 'principal' is defined as the fair value of the financial assets on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest (SPPI), the Company considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Company considers:

- contingent events that would change the amount and timing of cash flows;
- terms that may adjust the contractual coupon rate, including variable rate;
- prepayment and extension terms; and
- terms that limit the Company's claim to cash flows from specified assets (e.g. non-recourse features).

A prepayment feature is consistent with the solely payments of principal and interest criterion if the prepayment amount substantially represents unpaid amount of principal and interest on the principal amount outstanding, which may include reasonable additional compensation for early termination of the contract.

Additional information amount measurement of the impairment allowance is described in Note 3(j) and Note 24.



Notes to the Financial Statements

For the year ended 31 December 2022

3. Summary of significant accounting policies (Continued)

(i) Financial instruments (Continued)

(ii) Classification and measurement of financial assets and financial liabilities (Continued)

Financial liabilities - Classification, subsequent measurement and gains and losses

Financial liabilities are classified and measured at amortised cost or FVTPL. A financial liability is classified at FVTPL if it is classified as held-for trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses including any interest expense, are recognised in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit and loss. Any gains or loss on derecognition is also recognised in profit or loss.

Trade and other payables are stated at amortised cost. The amounts represent liabilities for goods and services provided to the Company prior to the end of the financial year and which are unpaid.

(iii) Derecognition

Financial assets

The Company derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Company neither transfers nor retains substantially all of the risks and rewards of ownership and it does retain control of the financial asset.

The Company enters into transactions whereby it transfers assets recognised in its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets. In these cases, the transferred assets are not derecognised.

Financial liabilities

The Company derecognises a financial liability when the contractual rights to the cash flows from the financial liability expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial liability are transferred or in which the Company neither transfers nor retains substantially all of the risks and rewards of ownership and it does retain control of the financial liability.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in profit or loss.

(iv) Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.



Notes to the Financial Statements

For the year ended 31 December 2022

3. Summary of significant accounting policies (Continued)

(j) Impairment

(i) Non-derivative financial assets

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flow due to the entity in accordance with the contract and the cash flows that the Company expects to receive).

The Company recognises loss allowances for ECLs on financial assets measured at amortised costs.

The Company measures loss allowances at an amount equal to the lifetime ECL, except for cash and cash equivalents which are measured as 12-months ECL as credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and informed credit assessment and includes forward-looking information.

The Company assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

The Company considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Company in full, without recourse by the Company to actions such as realising security (if any is held); or
- the financial asset is more than 90 days past due.

The Company considers another receivable or cash balance to have low credit risk when its credit risk rating is equivalent to the globally understood definition of "investment grade". The Company considers this to be Baa3 or a higher rating per Moody's or BBB- or higher per S&P.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).



Notes to the Financial Statements

For the year ended 31 December 2022

3. Summary of significant accounting policies (Continued)

(j) Impairment (Continued)

(i) Non-derivative financial assets (Continued)

The maximum period considered when estimating ECLs is the maximum contractual period over which the Company is exposed to credit risk.

ECLs are discounted at the effective interest rate of the financial asset.

At each reporting date, the Company assesses whether financial assets carried at amortised cost and debt securities at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or being more than 90 days past due;
- the restructuring of a loan or advance by the Company on terms that the Company would not consider otherwise;
- it is probable that the borrower will enter bankruptcy or other financial reorganisation; and
- the disappearance of an active market for a security because of financial difficulties.

Presentation of allowance for ECL in the statement of financial position

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

Write-off

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Company determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Company's procedures for recovery of amounts due.

(ii) Non-financial assets

The carrying amounts of the Company's non-financial assets, other than inventories and investment property are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit, or CGU").

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash-generating unit.



Notes to the Financial Statements

For the year ended 31 December 2022

3. Summary of significant accounting policies (Continued)

(j) Impairment (Continued)

(ii) Non-financial assets (Continued)

An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss.

4. New standards issued but not effective

A number of new standards are effective for annual periods beginning after 1 January 2022 and earlier application is permitted; however, the Company has not early adopted the new or amended standards preparing these financial statements.

Classification of liabilities as current or non-current	Amendments to IAS 1, effective on or after 1 January 2023
Disclosure of Accounting policies	Amendments to IAS 1 and IFRS Practice Statement 2, effective on or after 1 January 2023
Definition of Accounting estimates	Amendments to IAS 8, effective on or after 1 January 2023
Deferred tax related to assets and liabilities arising from single transaction	Amendments to IAS 12, effective on or after 1 January 2023

The Directors does not expect that the adoption of these standards listed above will have a material impact on the financial statements of the Company in future periods.

5. Water income

	2022 PGK	2021 PGK
Water commercial and centralised government agencies	90,472,644	55,963,373
Water domestic	35,516,415	37,817,878
Water institutional	27,718,672	36,081,822
Water industrial	19,201,905	19,206,203
Water non-domestic	19,045,154	10,329,684
	191,954,790	159,398,960



Water PNG Limited

Notes to the Financial Statements For the year ended 31 December 2022

6. Sewerage Income

	2022	2021
	PGK	PGK
Sewerage commercial and centralised government agencies	17,968,917	13,792,013
Sewerage non-domestic	5,545,782	4,504,284
Sewerage domestic	5,000,136	4,994,312
Sewerage industrial	3,480,738	2,430,533
Sewerage institutional	2,801,994	3,508,435
Sludge tankers	799,418	269,949
	<u>35,596,985</u>	<u>29,499,526</u>

7. Other Income

	2022	2021
	PGK	PGK
Standby fees	5,265,341	7,116,874
Interest income	891,446	986,502
Rental income from leases / tenancies	68,500	97,300
Fines and penalties	60,545	16,767
(Loss) / profit on disposal of assets	(45,154)	261,858
Other miscellaneous income	244,118	1,993,648
	<u>6,484,796</u>	<u>10,472,949</u>

8. Employee expenses

	2022	2021
	PGK	PGK
Salaries and wages expenses	78,659,418	66,784,143
Labour incidentals	3,223,070	3,386,177
	<u>81,882,488</u>	<u>70,170,320</u>

During the year the following number of employees or former employees received remuneration, including benefits, in excess of K100,000, stated in bands of K10,000.

Salary range

	2022	2021
	Number of employees	
K100,001 - K110,000	16	21
K110,001 - K120,000	24	16
K120,001 - K130,000	14	4
K130,001 - K140,000	8	0
K140,001 - K150,000	5	5
K150,001 - K160,000	9	11
K160,001 - K170,000	8	4
K170,001 - K180,000	5	10
K180,001 - K190,000	13	0
K190,001 - K200,000	2	3
K200,001 - K210,000	1	0



Water PNG Limited

Notes to the Financial Statements For the year ended 31 December 2022

8. Employee expenses (Continued)

Salary range (Continued)

K210,001 - K220,000
K220,001 - K230,000
K230,001 - K240,000
K240,001 - K250,000
K250,001 - K260,000
K260,001 - K270,000
K270,001 - K280,000
K280,001 - K290,000
K300,001 - K310,000
K500,001 - K520,000

2022	2021
Number of employees	
4	0
3	1
1	0
1	1
2	4
11	0
3	0
0	0
1	0
21	1

The average number of employees for the year was 733 (2021: 680).

9. Operating expenses

Included in operating expenses are the following:

Operational supplies
Repairs and maintenance *
Contractual services
Professional services
Stationery expenses
Communication costs
Directors fees
Travel and accommodation
Insurance costs
Building rentals
Entertainment
Advertising and public relations
Auditors remuneration
Donations
Other expenses *

2022	2021
PGK	Restated* PGK
34,739,899	26,231,489
12,572,877	7,983,892
8,995,345	6,346,558
5,466,488	2,464,916
3,402,724	2,196,675
3,054,617	2,379,809
2,457,002	679,039
2,117,524	1,281,618
1,793,318	1,465,890
1,387,744	431,637
1,044,732	1,390,001
905,415	1,083,099
883,766	622,225
615,821	608,222
1,029,185	277,887
80,466,457	55,442,957

* Refer to Note 26 for the restatement details.



Notes to the Financial Statements
For the year ended 31 December 2022

10. Taxation

(a) Income tax expense

The prima facie tax charge on the profit for the year is reconciled to the tax expense as follows:

	2022	2021
	PGK	Restated* PGK
Accounting (loss) / profit before tax *	(11,332,015)	1,147,988
Prima facie tax (benefit) / expense at 30% (2021: 30%) *	(3,399,605)	344,396
(Over) / under provisions in prior years	(2,723,726)	(45,309)
Permanent differences	189,670	(821,723)
Deferred tax charge prior period	-	58,552,070
Deferred tax movements	(14,133,539)	(2,856,748)
Other deferred tax movements *	-	17,287,521
	<u>(20,067,200)</u>	<u>72,460,207</u>
Tax (benefit) / expense is comprised of:		
Current tax expense	9,039,274	16,810,194
(Over) / under provisions in prior years	(2,723,726)	(45,309)
Deferred tax charge prior period	-	58,552,070
Deferred income tax benefit	(26,382,748)	(2,856,748)
Total tax (benefit) / expense	<u>(20,067,200)</u>	<u>72,460,207</u>

(b) Deferred tax

Deferred tax assets

	2022	2021
	PGK	PGK
Opening balance, 1 January	59,864,142	14,932,944
NCD Water DTA balance transferred on amalgamation	-	37,120,164
Net movement for the year	2,620,633	7,811,034
Closing balance, 31 December	<u>62,484,775</u>	<u>59,864,142</u>
This balance comprises the tax effect of:		
Provisions	6,964,470	5,861,241
Allowance for doubtful debts	50,989,850	49,817,917
Accruals	1,664,786	1,664,785
Leases	596,248	1,096,379
Lease liability IFRS 16	2,269,421	1,423,820
	<u>62,484,775</u>	<u>59,864,142</u>



Water PNG Limited

Notes to the Financial Statements For the year ended 31 December 2022

10. Taxation (Continued)

(b) Deferred tax (Continued)

Deferred tax liabilities

	2022 PGK	2021 PGK
Opening balance, 1 January	(190,855,807)	(31,329,369)
NCD Water DTL balance transferred on amalgamation	-	(74,445,798)
Net movement in the year through equity	-	(21,574,284)
Net movement for the year through profit and loss	23,762,114	(63,506,356)
Closing balance, 31 December	(167,093,693)	(190,855,807)
This balance comprises the tax effect of:		
Prepaid insurance	(742,530)	-
Right-of-use asset - IFRS 16	(2,056,861)	1,680,077
Property, plant and equipment	(164,294,302)	(189,175,730)
	(167,093,693)	(187,495,653)
Net deferred tax liability	(104,608,918)	(130,991,665)

(c) Current tax liability

Reconciliation of movement in current tax liability:

	2022 PGK	2021 PGK
Opening balance, 1 January	74,048,040	30,417,917
Under provision in previous year	(2,723,725)	(45,309)
Current income tax	9,039,274	16,810,193
Interest withholding tax	(70,619)	(77,186)
Tax paid	(14,594,175)	(13,513,125)
NCD Water PIT balance transferred on amalgamation	-	40,455,550
Closing balance, 31 December	65,698,795	74,048,040

* Refer to Note 26 for the restatement details.

11. Cash and cash equivalents

For the purpose of the statement of cash flows, cash includes cash on hand and at the bank and term deposits at call net of outstanding bank overdrafts. Cash as at the end of the financial year as shown in the statement of cash flows is reconciled to the related items in the statement of financial position as follows:

	2022 PGK	2021 PGK
Cash at bank	44,265,172	62,826,377
Petty cash	13,353	22,300
	44,278,525	62,848,677



Water PNG Limited

Notes to the Financial Statements For the year ended 31 December 2022

12. Term deposits

Term deposits presented in the statement of financial position are deposits made by the Company to Bank of South Pacific with maturity dates of 180 to 365 days at 1% to 1.6% interest; to Heduru Moni Limited with a maturity date of 181 days at 4.75% interest; to Kina Bank with a maturity date of 182 days with 2.75% interest and to Bank of Papua New Guinea with a maturity date of 365 days with 8.4% interest rate.

	2022	2021
	PGK	PGK
Term deposits	30,080,885	18,791,592

13. Inventories

	2022	2021
	PGK	PGK
Inventory control account	10,585,837	7,521,670

14. Trade and other receivables

	2022	2021
	PGK	Restated* PGK
Trade receivables	209,950,819	186,757,403
Sundry debtors - miscellaneous	3,918,146	4,596,808
Less: allowance for impairment	(171,901,499)	(159,746,259)
	41,967,466	31,607,952
Prepayments / advances	10,620,122	6,769,444
Sundry debtors *	3,115,060	5,258,960
Bond fee - office and staff housing	1,331,440	1,309,076
Accrued income	471,830	177,039
Novated leases	435,413	-
	57,941,331	45,122,471
<i>Reconciliation of allowance for impairment</i>		
Opening balance, 1 January	159,746,259	30,580,764
Increase in provision	46,093,857	174,878,831
Impairment of receivables	(22,963,596)	(29,694,833)
Write off	(10,975,021)	(16,018,503)
	171,901,499	159,746,259

* Refer to Note 26 for the restatement details.



Water PNG Limited

Notes to the Financial Statements
For the year ended 31 December 2022

15. Property, plant and equipment

	Land and buildings PGK	Civil works, pipelines and connections PGK	Motor vehicles PGK	Plant, equipment and furniture PGK	Right-of-use assets PGK	Work-in- progress PGK	Total PGK
Cost							
Balance at 1 January 2021	35,190,067	406,300,316	6,133,205	39,033,520	12,915,134	36,790,665	536,362,907
Add: Balance at 13 April 2021 - Amalgamation of Eda Raru *	105,876,761	451,085,073	10,519,369	238,459,706	5,252,960	34,828,030	844,001,899
Additions *	4,268,942	4,213,085	830,745	8,439,082	-	9,632,759	27,384,613
Disposals *	-	(1,731,943)	(452,976)	-	-	-	(2,184,919)
Impairment *	(79,384)	(8,458,522)	-	(1,263,154)	-	(415,673)	(10,216,733)
Revaluation: increase in value *	47,911,024	3,887,311	2,184,343	2,380,901	-	-	56,343,579
Revaluation: elimination of depreciation *	(2,169,312)	(40,633,371)	(3,124,931)	(21,839,060)	-	-	(67,786,674)
Depreciation and impairment adjustment	-	-	-	-	(4,786,916)	(3,313,450)	(8,100,366)
Reclassification and other adjustments	-	-	-	-	(7,780,921)	-	(7,780,921)
Restated balance at 31 December 2021	190,978,098	814,621,949	16,089,755	263,210,995	5,600,257	77,522,331	1,368,023,385
Additions	173,131	6,976,989	2,215,321	6,792,259	4,639,598	95,820,153	116,617,451
Disposals	-	-	(596,335)	-	-	-	(596,335)
Other asset adjustments	-	(97,636)	732	(19,720)	394,410	-	277,786
Balance at 31 December 2022	191,151,229	821,501,302	17,709,473	269,983,534	10,634,265	173,342,484	1,484,322,287



Water PNG Limited

Notes to the Financial Statements
For the year ended 31 December 2022

15. Property, plant and equipment (Continued)

	Land and buildings PGK	Civil works, pipelines and connections PGK	Motor vehicles PGK	Plant, equipment and furniture PGK	Right-of-use assets PGK	Work-in- progress PGK	Total PGK
Accumulated depreciation and impairment							
Balance at 1 January 2021	(1,477,422)	(30,323,622)	(2,441,225)	(15,149,408)	(4,787,210)	(3,313,450)	(57,492,337)
Add: Balance at 13 April 2021 - Amalgamation of Eda Ranu *	(4,992,146)	(60,904,759)	(7,240,361)	(29,120,471)	(3,918,044)	-	(106,173,781)
Depreciation charges for the year *	(2,385,098)	(16,207,982)	(2,637,697)	(15,885,296)	(668,458)	-	(37,784,531)
Depreciation charges on donor funded assets	(113,837)	(3,579,253)	-	-	-	-	(3,693,090)
Disposals	7,145	866,365	1,331,443	812,399	4,584,502	-	7,601,854
Depreciation and impairment adjustment	-	-	206,610	463,718	4,787,210	3,313,450	8,770,988
Revaluation: Elimination of depreciation *	2,189,313	40,633,368	3,124,931	21,839,060	-	-	67,786,672
Adjustments *	2,011	1,107,571	349,494	13,399	-	-	1,472,475
Restated balance at 31 December 2021	(6,770,034)	(68,408,312)	(7,306,805)	(37,026,589)	-	-	(119,511,750)
Depreciation charges for the year	(3,303,559)	(21,706,187)	(2,555,845)	(18,110,634)	(3,778,064)	-	(49,454,289)
Disposals	-	-	322,681	-	-	-	322,681
Other adjustments	-	-	(209)	-	-	-	(209)
Balance at 31 December 2022	(10,073,593)	(90,114,499)	(9,540,178)	(55,137,233)	(3,778,064)	-	(168,643,567)
Carrying value at 31 December 2021	184,208,084	746,213,637	8,782,950	226,184,395	5,600,257	77,522,331	1,248,511,634
Carrying value at 31 December 2022	181,077,636	731,386,803	8,169,295	214,846,301	6,856,201	173,342,484	1,315,678,720

* Refer to Note 26 for the restatement details.



Water PNG Limited

Notes to the Financial Statements For the year ended 31 December 2022

15. Property, plant and equipment (Continued)

- a) PPE classes were revalued to fair value during the 2022 financial period. The effective date of revaluation was 31 December 2022 and the valuation was performed by registered and independent valuers.
- b) The capital work in progress balance of K173,342,484 at 31 December 2022 (2021: K77,522,330) comprises of:

	2022 PGK	2021 PGK
Civil works	127,501,472	21,656,988
Pipelines	29,105,528	26,569,329
Buildings	10,147,438	7,234,349
Other assets-pumps and water metres	4,971,677	2,980,222
Plant and equipment	1,095,841	13,907,930
Computers and equipments	520,528	5,173,512
	173,342,484	77,522,330

16. Trade and other payables

	2022 PGK	2021 Restated* PGK
Accounts payable control account *	13,530,840	14,198,910
Accrued expenses	10,673,508	10,208,826
Payroll accruals *	3,898,853	3,822,229
Other accrued taxes *	2,472,067	2,261,393
Goods and services tax *	1,917,189	2,714,105
Other liabilities *	9,318,382	7,281,403
	41,810,839	40,486,866

* Refer to Note 26 for the restatement details.

17. Deferred income

	2022 PGK	2021 Restated* PGK
Current		
Unspent grants	2,774,272	2,135,522
Non-current		
Unspent grants *	1,924,688	112,521

During the year, deferred income amounting to K112,521 was reclassified as non-current liability. The Company received an additional grant amounting to K1,924,688 from the donor agency and was recorded as deferred income. The asset is in construction stage. (note 15).

* Refer to Note 26 for the restatement details.



Water PNG Limited

Notes to the Financial Statements For the year ended 31 December 2022

18. Employee benefits obligation

	2022 PGK	2021 PGK
Current		
Annual leave provision	5,425,400	4,070,957
Non-current		
Long service leave provision	17,789,501	15,389,203
Gratuity provision	-	77,308
	17,789,501	15,466,511

Reconciliation of employee benefits obligation

	2022 PGK	2021 PGK
Current		
Balance at 1 January	4,070,957	2,029,562
Movement during the year	1,354,443	2,041,395
Balance at 31 December	5,425,400	4,070,957
Non-current		
Balance at 1 January	15,466,511	6,799,155
Movement during the year	2,322,990	8,667,356
Balance at 31 December	17,789,501	15,466,511

Employee benefits entitlements due as at reporting date are based on rates of pay that the liability is expected to be settled at. During the year, K3,807,325 was contributed by Water PNG on behalf of its staff to defined contribution plans (2021: K3,101,297).

19. Loans and borrowings

	2022 PGK	2021 PGK
Loans from National Government - current portion	106,676,873	-
Loans from National Government - non-current portion	12,425,860	107,540,586
	119,102,733	107,540,586



Notes to the Financial Statements

For the year ended 31 December 2022

20. Leases

(a) Finance leases

As a lessee, the Company leases motor vehicles under finance lease. The lease is negotiated for an average of three years and the rentals are fixed for the period of 36 months at 11.5%.

Finance lease liabilities are payable as follows:

	2022 PGK	2021 PGK
Balance at 1 January	2,882,895	2,071,389
Add: Balance at 13 April 2021 - amalgamation of Eda Ranu	-	2,011,897
Additions	1,175,627	705,060
Repayment	(1,749,539)	(1,727,508)
Interest payment	(321,489)	(177,943)
Balance at 31 December	1,987,494	2,882,895

	2022 PGK	2021 PGK
Not later than one year	1,300,557	2,431,500
Later than one year but not later than five years	863,126	686,311
	2,163,683	3,117,811
Future interest expenses	(176,189)	(234,916)
Total discounted lease liability at 31 December	1,987,494	2,882,895

	2022 PGK	2021 PGK
Present value of minimum lease payments		
Finance lease - current	1,194,653	2,248,295
Finance lease - non-current	792,841	634,600
	1,987,494	2,882,895

(b) Other leases

As a lessee, the Company leases office accommodation. The lease is negotiated for an average of three years and the rentals are fixed for the period with an option to extend for a further three years at the present prevailing market rate.

	2022 PGK	2021 PGK
Balance at 1 January	5,517,768	8,295,612
Add: Balance at 13 April 2021 - amalgamation of Eda Ranu	-	219,941
Additions	3,343,846	318,063
Repayment	(1,151,566)	(2,778,138)
Interest payment	(145,313)	(537,711)
	7,564,735	5,517,767



Notes to the Financial Statements
For the year ended 31 December 2022

20. Leases (Continued)

(b) Other leases (Continued)

Right-of-use asset

Right-of-use (ROU) assets related to leased properties that do not meet the definition of investment property are presented as property, plant and equipment.

	2022 PGK	2021 PGK
Balance at 1 January	5,600,257	8,127,924
Additions	4,639,598	1,336,916
Depreciation charge for the year	(3,778,064)	(668,458)
Other adjustments	394,410	(3,196,125)
	<u>6,856,201</u>	<u>5,600,257</u>

The lease liability was initially determined by applying an average discount rate of 8.6%.

Maturity analysis for lease liabilities

At 31 December 2022, the future minimum lease payments under non-cancellable operating leases were payable within the periods as follows:

	2022 PGK	2021 PGK
One to three months	1,092,225	796,676
Three to twelve months	3,195,320	2,330,688
One to five years	5,183,970	3,781,221
	<u>9,471,515</u>	<u>6,908,585</u>
Future interest expenses	(1,906,780)	(1,390,818)
Total discounted lease liability at 31 December	<u>7,564,735</u>	<u>5,517,767</u>
Other lease - current	3,321,828	2,497,771
Other lease - non-current	4,242,907	3,019,996
	<u>7,564,735</u>	<u>5,517,767</u>



Water PNG Limited

Notes to the Financial Statements For the year ended 31 December 2022

20. Leases (Continued)

(b) Other leases (Continued)

Amount recognised in profit or loss

	2022	2021
	PGK	PGK
Interest on lease liabilities	145,313	537,712
Depreciation	3,778,064	2,527,667
	<u>3,923,377</u>	<u>3,065,379</u>

Amounts recognised in statement of cash flows

	2022	2021
	PGK	PGK
Total cash outflow for leases	<u>1,296,879</u>	<u>3,315,848</u>

21. Related parties

Parties are related where one party has the ability to control or significantly influence the other party in financial or operational decisions. Related parties include the Company's shareholders, key management personnel and related entities. The directors confirm that during the year, all transactions with these parties were conducted on normal commercial term.

Ultimate controlling entity

At 31 December 2022, the ultimate controlling entity of Water PNG was Kumul Consolidated Holdings Limited, the state's private equity and investment company with a mandate to build shareholder wealth and to improve the provision of services to the people of Papua New Guinea.

Related party transactions

Water PNG has related party relationships with key management personnel, including directors, and with entities that belong to the government sector controlled by Kumul Consolidated Holdings Limited. From time to time, key management personnel may purchase goods or services from the Company. These purchases are on the same terms and conditions as those entered into by other customers and are trivial or domestic in nature. There were no related party transactions during either the current or previous reporting periods with other entities related to the Company's directors and senior executives.



Water PNG Limited

Notes to the Financial Statements
For the year ended 31 December 2022

21. Related parties (Continued)

Related party transactions (Continued)

Key management personnel compensation

	2022	2021
	PGK	PGK
Directors fees		
Mr Hubert Namani	-	57,967
Mr Aiwa Olmi	363,903	77,100
Ms Tamzin Wardley	247,409	56,500
Mr Ako Toua	244,740	69,500
Mr John Cholai	247,844	64,500
Ms Sisa Kini	246,209	19,000
Mr Nelson Tengi	243,106	19,000
Mr Meckles Poya (appointed 10 May 2022)	246,209	-
	1,839,420	363,567
Other key management personnel		
Salaries and other benefits	3,939,451	5,152,673

During the year a loan amounted to K100,000 was granted to Mr Aiwa Olma (2021: K Nil).

22. Asset revaluation reserve

	2022	2021
	PGK	Restated* PGK
Opening balance 1 January	240,655,819	232,139,349
Realisation of revaluation *	(16,446,446)	(17,740,207)
Revaluation gain *	-	26,256,677
Closing balance 31 December	224,209,373	240,655,819

* Refer to Note 26 for the restatement details.

23. Government equity

	2022	2021
	PGK	PGK
Government equity	65,895,228	65,895,228

There were no equity contributions received or issues of shares in the current or previous reporting periods.



Notes to the Financial Statements

For the year ended 31 December 2022

24. Financial instruments

(a) Accounting classifications and fair values

Fair values versus carrying values

The estimated fair values of financial assets and liabilities, together with the carrying amounts shown in the statement of financial position are as follows:

	Fair values		Carrying values	
	2022 PGK	2021 Restated* PGK	2022 PGK	2021 Restated* PGK
Cash and cash equivalents	44,278,525	62,848,677	44,278,525	62,848,677
Term deposits	30,080,885	18,791,592	30,080,885	18,791,592
Trade and other receivables *	57,941,331	45,122,471	57,941,331	45,122,471
Trade and other payables *	(41,810,839)	(40,486,866)	(41,810,839)	(40,486,866)
	90,489,902	86,275,874	90,489,902	86,275,874

* Refer to Note 26 for the restatement details.

The carrying amount of cash and cash equivalents, trade and other receivables and trade and other payables approximate their fair values due to the relatively short-term nature of these financial instruments.

Fair value categorisation of financial instruments in the fair value hierarchy is as follows:

31 December 2022	Level 1 PGK	Level 2 PGK	Level 3 PGK	Total PGK
Cash and cash equivalents	44,278,525	-	-	44,278,525
Term deposits	30,080,885	-	-	30,080,885
Trade and other receivables	-	-	57,941,331	57,941,331
Trade and other payables	-	-	(41,810,839)	(41,810,839)
	74,359,410	-	16,130,492	90,489,902

31 December 2021 Restated*	Level 1 PGK	Level 2 PGK	Level 3 PGK	Total PGK
Cash and cash equivalents	62,848,677	-	-	62,848,677
Term deposits	18,791,592	-	-	18,791,592
Trade and other receivables *	-	-	45,122,471	45,122,471
Trade and other payables *	-	-	(40,486,866)	(40,486,866)
	81,640,269	-	4,635,605	86,275,874

* Refer to Note 26 for the restatement details.



Notes to the Financial Statements

For the year ended 31 December 2022

24. Financial instruments (Continued)

(b) Financial risk management

The Company has exposure to the following risks from its use of financial instruments:

- i. risk management framework;
- ii. credit risk;
- iii. liquidity risk;
- iv. market risk; and
- v. operational risk.

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital. Further quantitative disclosures are included throughout these financial statements.

(i) Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board has established the Audit and Risk Committee, which is responsible for developing and monitoring the Company's risk management policies. The committee reports regularly to the Board of Directors on its activities.

The Company's risk management policies are established to identify and analyses the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities. The Company, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities. The Company, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

(ii) Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from customers and investment securities.

Trade and other receivables

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the demographics of the Company's customer base, including the default risk of the industry and country in which customers operate, as these factors may have an influence on credit risk, particularly in the current economic circumstances. The Company's revenue is not attributable to sales transactions with any particular single customer. Geographically, the concentration of credit risk is mainly in Port Moresby, within the Southern region of Papua New Guinea.

Cash and cash equivalents

The Company limits its exposure to credit risk by investing its cash and cash equivalents with reputable banks and other institution.



Notes to the Financial Statements

For the year ended 31 December 2022

24. Financial instruments (Continued)

(b) Financial risk management (Continued)

(ii) Credit risk (Continued)

In the normal course of its business the Company incurs credit risk from customers. There are no significant concentrations of credit risk. The Company has a credit policy to manage exposure to credit risk. As part of this policy, limits on exposures have been set and are monitored on a regular basis. The carrying amount of financial assets represents the maximum credit exposure.

The maximum exposure to credit risk at the reporting date was:

	2022	2021
	PGK	Restated* PGK
Cash and cash equivalents	44,278,525	62,848,677
Term deposits	30,080,885	18,791,592
Trade and other receivables *	57,941,331	45,122,471
	132,300,741	126,762,740

* Refer to Note 26 for the restatement details.

The maximum exposure to credit risk for trade receivables at the reporting date by geographic region was:

	2022	2021
	PGK	Restated* PGK
Southern	129,062,004	118,079,841
Momase	60,701,760	51,362,179
New Guinea Islands	10,205,441	8,887,397
Highlands	9,981,614	8,427,986
	209,950,819	186,757,403

* Refer to Note 26 for the restatement details.



Notes to the Financial Statements
For the year ended 31 December 2022

24. Financial Instruments (Continued)

(b) Financial risk management (Continued)

(ii) Credit risk (Continued)

The aging of trade receivables (gross) at the reporting date was:

	2022	2021
	PGK	Restated* PGK
Not past due	13,990,891	9,445,119
Past due 0 - 30 days	15,340,330	14,359,662
Past due 31 - 90 days	23,525,103	14,486,189
Past due 91 -180 days	13,327,757	22,830,581
More than 180 days	143,766,738	125,635,852
	<u>209,950,819</u>	<u>186,757,403</u>

* Refer to Note 26 for the restatement details.

Expected credit losses assessment for trade receivables as at 31 December 2022

The Company applies the methodology of its write-off policy to measure ECLs of trade receivables from individual customers. Losses are calculated by applying a percentage based on the type of customer and the number of years outstanding.

	Weighted average loss rate	Gross carrying amount PGK	Loss allowance PGK	Credit impaired PGK
31 December 2022				
Current - not past due	42.3%	14,307,866	6,055,889	808,981
1 - 30 days past due	52.1%	15,372,975	8,014,080	1,070,567
31 - 60 days past due	67.0%	12,158,060	8,145,622	1,088,139
61 - 90 days past due	72.8%	11,752,874	8,561,794	1,143,734
91 - 180 days past due	75.7%	21,286,310	16,114,167	2,152,624
181 - 360 days past due	75.8%	37,548,408	28,462,484	3,802,183
More than 360 days past due	99.0%	97,524,326	96,547,463	12,897,369
		<u>209,950,819</u>	<u>171,901,499</u>	<u>22,963,597</u>



Notes to the Financial Statements
For the year ended 31 December 2022

24. Financial instruments (Continued)

(b) Financial risk management (Continued)

(ii) Credit risk (Continued)

31 December 2021	Weighted average loss rate	Gross carrying amount PGK	Loss allowance PGK	Credit impaired PGK
Current - not past due	43.2%	(1,956,951)	(845,413)	(157,152)
1 - 30 days past due	45.0%	15,497,629	6,971,720	1,295,956
31 - 60 days past due	58.0%	11,823,224	6,855,076	1,274,273
61 - 90 days past due	66.6%	9,351,036	6,227,777	1,157,666
91 - 180 days past due	65.7%	22,908,438	15,041,506	2,796,028
181 - 360 days past due	81.2%	19,300,891	15,662,456	2,911,455
More than 360 days past due	100.0%	109,833,136	109,833,137	20,416,607
		186,757,403	159,746,259	29,694,833

Cash and cash equivalents

The Company held cash at bank of K44,278,525 (2021: K62,848,677). Cash at bank is held with banks which are rated AA- and B based on S&P's ratings.

Impairment on cash at bank has been measured on a 12-month expected loss basis and reflects the short maturities of the exposures. The Company considers its cash at bank has a low credit risk based on external credit ratings of the counterparties.

Accordingly, due to short term maturities and low credit, the Company did not recognise an impairment allowance against cash and cash equivalents.

(iii) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

The Company ensures that it has sufficient cash on demand to meet expected operational expenses for a period of 90 days, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.



Notes to the Financial Statements

For the year ended 31 December 2022

24. Financial instruments (Continued)

(b) Financial risk management (Continued)

(iii) Liquidity risk (Continued)

The following are the contractual maturities of financial liabilities:

	Carrying amount PGK	Contracted cash flows PGK	Less than 1 year PGK	More than 1 year PGK
Amount at 31 December 2022:				
Non derivative financial liabilities:				
Trade and other payables	41,810,839	41,810,839	41,810,839	-
Loans and borrowings	119,102,733	119,102,733	106,676,873	12,425,860
	<u>160,913,572</u>	<u>160,913,572</u>	<u>148,487,712</u>	<u>12,425,860</u>
Amount at 31 December 2021:				
Non derivative financial liabilities:				
Trade and other payables *	40,486,866	40,486,866	40,486,866	-
Loans and borrowings	107,540,586	107,540,586	-	107,540,586
	<u>148,027,452</u>	<u>148,027,452</u>	<u>40,486,866</u>	<u>107,540,586</u>

(iv) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters.

Foreign exchange risk

The Company is not exposed to foreign currency risk, as there is no hedging, and no technical support from foreign countries.

Interest rate risk

There were term deposits at year end of K30,080,885 (2021: K18,791,592) with maturities greater than 3 months bearing interest rates as in Note 12.

The Company does not account for any fixed rate financial assets at fair value through profit or loss, and the Company does not designate derivatives as hedging instruments under a fair value hedge accounting model. Therefore a change in interest rates at the reporting date would not affect profit or loss.



Notes to the Financial Statements

For the year ended 31 December 2022

24. Financial Instruments (Continued)

(b) Financial risk management (Continued)

(v) Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Company's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Company's operations. The Company's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Company's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

25. Capital management

The Board's policy is to maintain a strong capital base so as to maintain government, creditor and market confidence and to sustain future development of operations. Capital consists of government equity and retained earnings. The Board of Directors monitors the return on capital.

The Board of Directors seek to maintain a balance between the higher returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position. There were no changes in the Company's approach to capital management during the year. The Company is not subject to any externally-imposed capital requirements.

26. Prior period restatement

In 2022, the Company's management discovered prior period errors relating to the transfer of Eda Ranu's assets and liabilities to the Company on amalgamation at 13 April 2021. This errors related to the recoverability of trade receivable balances, statement of cash flows in relation to inclusion of term deposit with original maturities greater than three months, property, plant and equipment measured under the revaluation model but where not reflective of their fair value as at 31 December 2021 and property, plant and equipment that the entity had control over but had not recognised in the financial statements. In addition, the deferred income balance of prior periods was correctly amortised, based on information obtained during the year.

The above resulted in a restatement of 2021 amounts as reported below and in the financial statements presented.

Management has not resolved historical flow-on impact on taxes in the current and prior year. This will include consultation with the IRC and will impact the current and deferred tax balances and transactions.

In accordance with IAS 8, *Accounting policies, change in accounting estimates and errors*, the restatement has been corrected by restating each of the affected financial statement line items for the prior period. The following tables summarise the impact on the Company's financial statements:



Notes to the Financial Statements

For the year ended 31 December 2022

Statement of financial position



Water PNG Limited

Notes to the Financial Statements For the year ended 31 December 2022

26. Prior period restatement (Continued)

Statement of profit or loss and other comprehensive income

	Impact of correction of error		
	As previously reported PGK	Adjustments PGK	As restated PGK
Operating expenses	(55,348,765)	(94,192)	(55,442,957)
Depreciation	(26,018,297)	(16,214,813)	(42,233,110)
Impairment of receivables	(36,008,297)	6,313,464	(29,694,833)
Loss for the year	(61,316,678)	(9,995,541)	(71,312,219)
Property, plant and equipment revaluation gain, net of tax	50,339,996	(24,083,319)	26,256,677
Total comprehensive loss for the year	(10,976,682)	(34,078,860)	(45,055,542)

Statement of cash flows

	Impact of correction of error		
	As previously reported PGK	Adjustments PGK	As restated PGK
Cash flows from operating activities:			
Interest paid	-	(715,654)	(715,654)
Net cash provided by operating activities	37,801,046	(715,654)	37,085,392
Cash flows from investing activities:			
Receipts from investments in terms deposits	-	5,329,645	5,329,645
Net cash used in investing activities	(26,264,240)	5,329,645	(20,934,595)
Cash flows from financing activities:			
Net movement of lease liability	(3,315,848)	(1,189,798)	(4,505,646)
Net cash provided by financing activities	26,388,091	(1,189,798)	25,198,293
Net increase in cash and cash equivalents held	37,924,897	3,424,193	41,349,090
Cash and cash equivalents at the beginning of the financial year	43,715,372	(22,215,785)	21,499,587
Cash and cash equivalents at the end of the financial year	81,640,269	(18,791,592)	62,848,677

27. Commitments

Capital commitments at reporting date was K104,690,000 (2021: K44,456,804).

28. Contingent liabilities

Contingent liabilities of K24,065,276 against the Company is outstanding at 31 December 2022 (2021: K13,182,000).



Water PNG Limited

Notes to the Financial Statements
For the year ended 31 December 2022

29. Events occurring after the reporting date

No matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the Company, the results of those operations, or the state of affairs of the Company in future financial years.

